

GENERAL FUND ESTIMATED SURPLUS/ (DEFICIT)

Prior Year's (2000-2001) Surplus: The Mayor's 2001-2002 Proposed Budget assumes no General Fund surplus or deficit for the current year (2000-2001). However, the Budget Department currently projects a General Fund surplus of \$270,895, based on its most recent analysis of various General Fund appropriations and revenues. Details of the Budget Department's projection are presented as follows:

<u>Surplus (Deficit) Identified By General Fund Department or Item</u>	<u>Revenue Surplus/(Deficit)</u>	<u>Appropriations Surplus/(Deficit)</u>	<u>Net Surplus/(Deficit)</u>
Buildings and Safety Engineering	\$ (1,000,000)	\$ 2,500,000	\$ 1,500,000
Civic Center	(1,350,000)	(485,000)	(1,835,000)
Department of Public Works	200,000	(2,500,000)	(2,300,000)
Finance	(238,000)	1,138,700	900,700
Health	(653,000)	1,455,000	802,000
Human Resources	3,500,000	(13,000)	3,487,000
Information & Technological Services	(50,000)	908,000	858,000
Law	(850,000)	(647,500)	(1,497,500)
Planning & Development	2,800,000	1,149,000	3,949,000
Police	0	(720,000)	(720,000)
Recreation	(2,993,000)	1,823,000	(1,170,000)
Other Agencies - net	613,925	1,739,370	2,353,295
Non-Departmental Items:			
Property Tax	4,347,000	-	4,347,000
Municipal Income Tax	(11,600,000)	-	(11,600,000)
Earnings on Investments	(2,000,000)	-	(2,000,000)
Wagering Tax	4,900,000	-	4,900,000
Central Staff Services	503,000	-	503,000
Other Non-Departmental	507,200	465,200	972,400
Employee Fringe Benefits:			
Hospitalization – Active	-	(1,927,000)	(1,927,000)
Hospitalization – Retired	-	(5,131,000)	(5,131,000)
Workers' Compensation	-	2,030,000	2,030,000
Other Fringe Benefits – net	-	1,849,000	1,849,000
Total Projected General Fund Surplus (Deficit)	<u><u>\$ (3,362,875)</u></u>	<u><u>\$ 3,633,770</u></u>	<u><u>\$ 270,895</u></u>

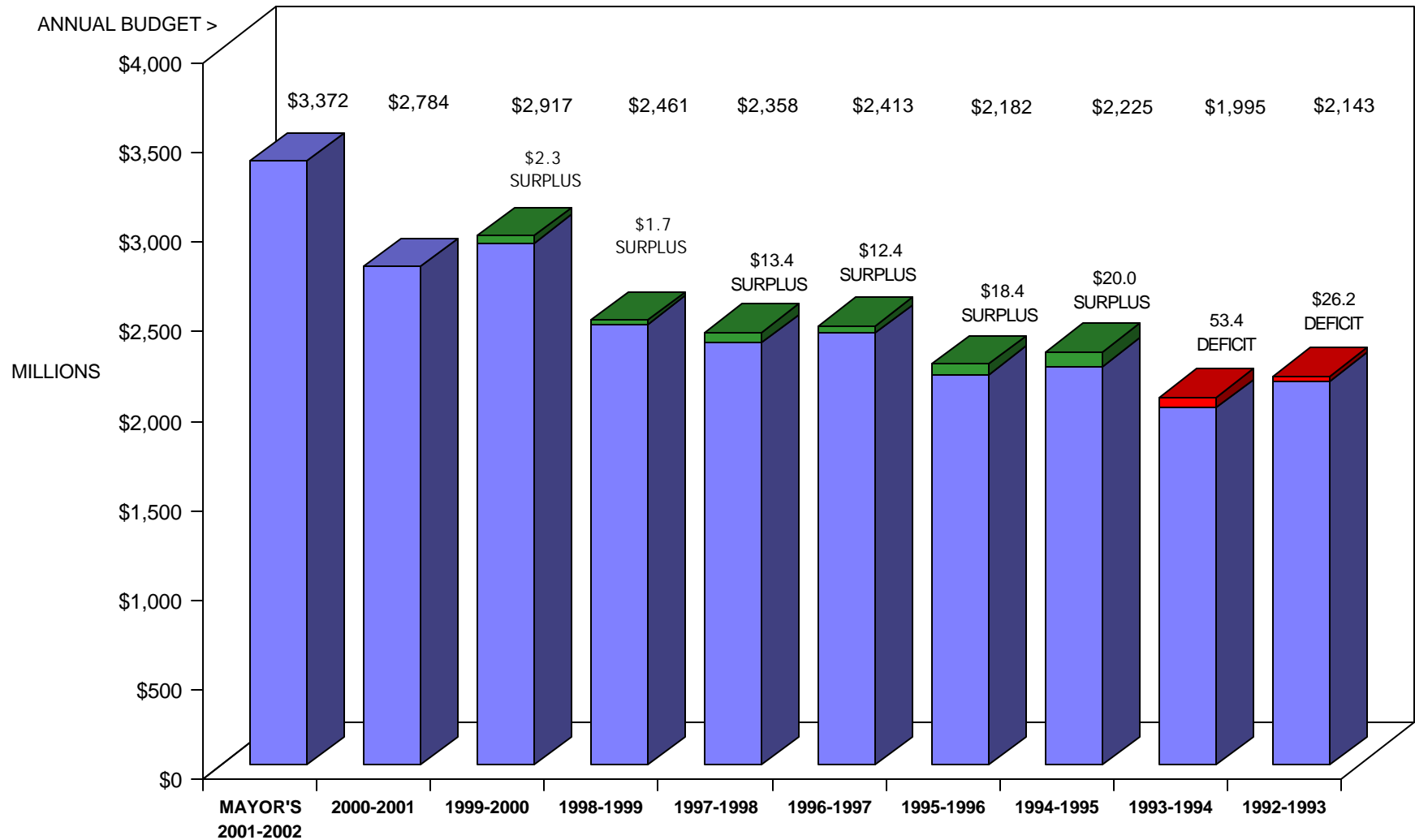
The Budget Department's projection of a \$0.27 million surplus for the year ending June 30, 2001, consists of a net deficit in revenues of \$3.36 million and a net surplus in appropriations of \$3.63 million, as detailed in the above schedule.

General Fund appropriations account for about \$1.413 billion, or about 50.8%, of the City's total appropriations of \$2.784 billion in the 2000-2001 Budget.

The Budget Department's current estimate of the General Fund surplus is based on the best available information, as of April 2001, and on various assumptions and projections, and is subject to change.

COMPARATIVE TOTAL FISCAL YEAR BUDGETS

(INCLUDING SURPLUSES and DEFICITS - In Millions)



Note: The surplus for the FY 1999-2000 is based on a draft copy of the CAFR.

STATE OF MICHIGAN – BUDGETARY LAWS

The Mayor's Proposed Budget for 2001-2002 is in compliance with the State of Michigan "Uniform Budgeting and Accounting Act" (Public Act 2 of 1968, as amended), which requires a budget whereby estimated expenditures cannot exceed total estimated revenues, so that the budget as submitted is "balanced". This Act, as included in Section 141.435, Subsection 15 (2) of the Michigan Compiled Laws, states:

"The total estimated expenditures, including an accrued deficit, in the budget shall not exceed the total estimated revenues, including an available unappropriated surplus and the proceeds from bonds or other obligations issued under the fiscal stabilization act or the balance of the principal of these bonds or other obligations."

Under Michigan Public Act 275 of 1980 [Section 141.921, Subsection 21 (2) of the Michigan Compiled Laws], any local unit of government that ends its fiscal year in a deficit condition, must submit a financial plan to correct the deficit with the Michigan Department of Treasury. It is unlikely that the City will need to formulate such a plan. The Mayor's Proposed Budget assumes no surplus or deficit for the year ending June 30, 2001. As of March 31, 2001, the City had \$ 32.9 million available in its Budget Stabilization Reserve Fund to cover future General Fund deficits.

The 2001-2002 Mayor's Proposed Budget is in compliance with the City Charter (Section 8-204) which also requires a balanced budget. The Charter states that "the total of proposed expenditures shall not exceed the total of estimated revenues" and any surplus or deficit during a current fiscal year shall be entered as an item in the following year's budget.

BUDGET STABILIZATION RESERVE FUND

Detroit's Budget Stabilization Reserve Fund, a "rainy day fund", was established by City ordinance in 1979. City Ordinances 324-H and 341-H provide that one-half of a General Fund surplus for a fiscal year will be included as revenue in the following year's budget and the other one-half of the surplus will be transferred to the Budget Stabilization Reserve Fund. The Budget Stabilization Reserve Fund, accounted for as a City trust and agency fund, was established to cover future General Fund deficits, provide funds to restore employees laid off during prior fiscal years, and cover expenses arising from natural disasters.

The Budget Stabilization Reserve Fund's current balance of \$32.9 million does not include one-half (or \$1.15 million) of the General Fund surplus of \$2.3 million for the fiscal year ended June 30, 2000. Although not reflected in the Mayor's 2001-2002 Proposed Budget, the Finance Department will transfer the \$1.15 million into the Budget Stabilization Reserve Fund by June 30, 2001 in accordance with City Ordinance 324-H. This transfer will increase the Fund's balance to \$34.1 million. This balance is based upon one-half of the audited General Fund surpluses of \$20 million, \$18.4 million, \$12.4 million, \$13.4 million, \$1.7 million, and \$2.3 million for each of the past six fiscal years ended June 30, 1995, through 2000.

The 2001-2002 Mayor's Proposed Budget assumes no General Fund surplus or deficit for fiscal year 2000-2001. If this proves accurate, the Budget Stabilization Reserve Fund balance will remain at \$34.1 million. The actual surplus or deficit for 2000-2001 will not be known until the City's annual financial audit is completed.

RISK MANAGEMENT FUND

The Risk Management Fund was established by City Ordinance (Ord. No. 16-95) in 1995. The Ordinance states, "The Risk Management Fund shall cover liability to third parties for any loss or damage whatsoever arising out of negligence, tort, contract or otherwise accruing payable by the City from and after July 1, 1994, and for which insurance could be provided by a third party insurer, but for which the City has determined to self-insure, including, without limitation, any obligation for which the City may be held liable under Worker's Compensation or Disability Benefits Law, or under any similar laws, or for damage to property or personal injury, in accordance with applicable law". The Risk Management Fund accounts for claim and lawsuit payments of the General Fund Departments and DDOT.

A total of \$100 million in self-insurance bonds was issued in 1995 and the proceeds were deposited in the Risk Management Fund. Each fiscal year the Risk Management Fund receives premiums from the General Fund and the Department of Transportation (DDOT) to cover expected claim and lawsuit payments. It also receives earnings from investment of fund assets and reimbursements from the State.

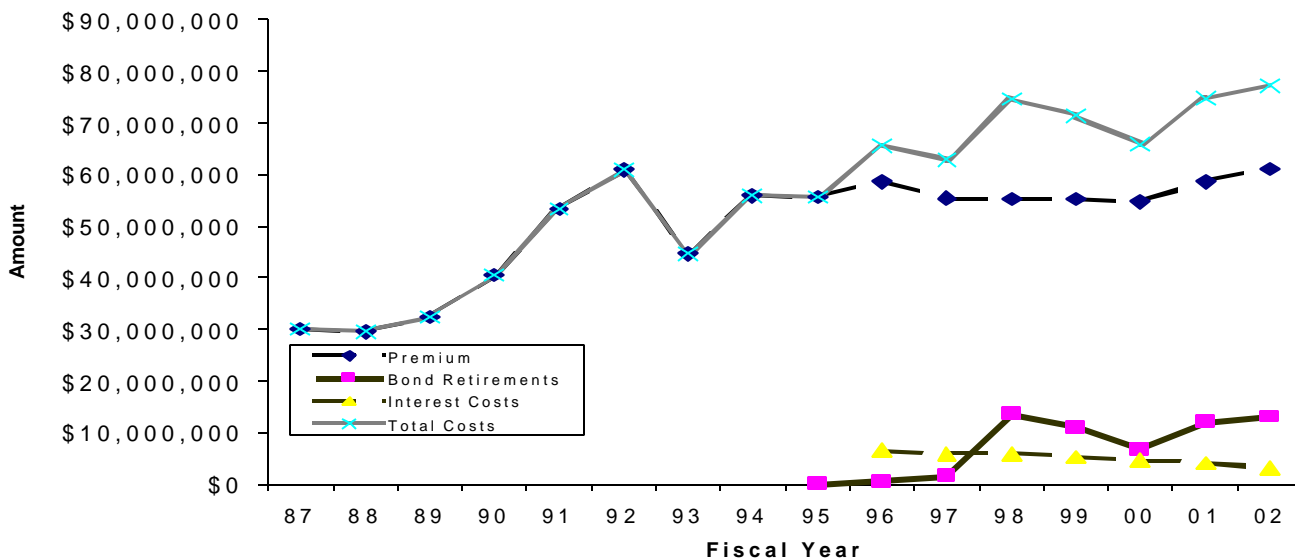
Appropriations of the General Fund and DDOT to pay premiums to the Risk Management Fund included in the 2001-2002 Mayor's Proposed Budget are compared with the 2000-2001 Budget as follows:

	Budgeted Appropriations for Premiums (In Millions)		
	2001-2002 Mayor's Budget	2000-2001 Budget	Increase (Decrease)
General Fund	\$48.6	\$46.6	\$2.0
DDOT	12.5	12.0	0.5
Total Premiums	<u>\$61.1</u>	<u>\$58.6</u>	<u>\$2.5</u>

Premiums are based on a five-year running average of actual payouts on claims and lawsuits. There were large payouts in 1998-1999 and 1999-2000, particularly for litigation pertaining to DDOT. The \$2.5 million increase included in the 2001-2002 Mayor's Proposed Budget compared to the 2000-2001 Budget represents an increase of about 4%.

The table and graph which follow present budgeted appropriations covering the sixteen fiscal years from 1986-1987 through 2001-2002 for the General Fund and DDOT for claims and workers compensation, and beginning in 1995-1996, for premiums to the Risk Management Fund, and debt service (bond retirements and interest and bond related costs) for the Risk Management Fund self-insurance bonds.

Budgeted Appropriations (In Millions)				
Fiscal Year	Total Premiums General Fund & DDOT	Bond Retirements	Bond & Interest Costs	Total
1986-1987	\$ 30.0			\$ 30.0
1987-1988	29.5			29.5
1988-1989	32.3			32.3
1989-1990	40.6			40.6
1990-1991	53.3			53.3
1991-1992	60.9			60.9
1992-1993	44.6			44.6
1993-1994	55.9			55.9
1994-1995	55.6			55.6
1995-1996	58.6	\$ 0.5	\$ 6.5	65.6
1996-1997	55.4	1.5	6.0	62.9
1997-1998	55.2	13.6	5.9	74.7
1998-1999	55.2	11.0	5.2	71.4
1999-2000	54.7	6.6	4.6	65.9
2000-2001	58.6	12.0	4.1	74.7
2001-2002	61.1	13.0	3.1	77.2
Total	<u>\$801.5</u>	<u>\$58.2</u>	<u>\$35.4</u>	<u>\$895.1</u>



The preceding table and graph show the increasing General Fund and DDOT budgeted appropriations for claims and workers compensation premiums, and related debt. The total appropriations have increased by \$47.2 million (or 157%) from \$30 million in fiscal year 1986-1987 to \$77.2 million in fiscal year 2001-2002. Appropriations have increased by 39% since fiscal year 1994-1995, the fiscal year prior to institution of the Risk Management Fund.

A total of \$33.1 million of the \$100 million of Risk Management Fund self-insurance bonds have been retired, leaving a balance of \$66.9 million of bonds payable, as of June 30, 2000.

The table below shows the Risk Management Fund's actual claims expenditures, revenues, deficiency of revenues, and the Risk Management Fund balance for the past six years.

Actual Expenditures, Revenues, and Fund Balance (In Millions)				
Fiscal Year	Claims Expenditures	Revenues	Excess/ (Deficiency) of Revenues	Fund Balance
Beginning Balance				\$100.0
1994-1995	\$ 48.8	\$ 11.3	\$ (37.5)	62.5
1995-1996	57.8	56.9	(0.9)	61.6
1996-1997	52.8	59.2	6.4	68.0
1997-1998	55.6	50.0	(5.6)	62.4
1998-1999	74.0	53.2	(20.8)	41.6
1999-2000	61.8	56.3	(5.5)	36.1
Total	<u>\$350.8</u>	<u>\$286.9</u>	<u>\$(63.9)</u>	

As shown in the above table, the Fund balance of the Risk Management Fund was \$36.1 million on June 30, 2000. A total of \$350.8 million in claims and workers compensation have been paid by the Risk Management Fund in the past six years with \$286.9 million in revenues, consisting primarily of General Fund and DDOT premiums, and the remaining \$63.9 million coming from the self-insurance bond proceeds of the Risk Management Fund. The difference between the \$100 million in self-insurance bond proceeds and the Risk Management Fund balance of \$36.1 million, at June 30, 2000, is the \$63.9 million of bond proceeds used to pay claims.

Based on our analysis of the Risk Management Fund, we note these financial concerns:

- Using self-insurance bonds to finance the payments of claims has added \$35.4 million to the City's appropriations in the form of bond interest expense and other costs over the past six years and next year.
- The Risk Management Fund paid out \$350.8 million in the six years, since the Fund began in 1995 (an average of \$58.5 million per year), and payouts are basically increasing, indicating that the City's efforts to address this issue have not reduced payouts.
- Due to the large cumulative payouts, the fund balance of the Risk Management Fund was down to \$36.1 million on June 30, 2000, so the net assets available to pay claims is dwindling, while the City still owes \$66.9 million of the related debt.

DEPARTMENT OF TRANSPORTATION

The following schedule compares Total Appropriations and Total Revenues for the Detroit Department of Transportation (DDOT) operations in the 2001-2002 Mayor's Proposed Budget to the fiscal year 2000-2001 Budget:

	<u>In Millions</u>			
	2001-2002 Mayor's Budget	2000-2001 Budget	Increase (Decrease)	
Total Appropriations	<u>\$ 181.0</u>	<u>\$ 172.7</u>	<u>\$ 8.3</u>	
Revenues:				
State Operating Assistance	\$ 61.9	\$ 58.7	\$ 3.2	A
Farebox Revenue	27.0	26.7	0.3	
General Fund Contribution to DDOT	73.4	68.5	4.9	B
General Fund Contribution to DTC	11.4	10.7	0.7	C
General Obligation Bond Sale	0.0	1.0	(1.0)	
Other Operating Revenue	0.8	0.8	0.0	
Claims Fund Revenue	<u>6.5</u>	<u>6.3</u>	<u>0.2</u>	
Total Revenues	<u>\$ 181.0</u>	<u>\$ 172.7</u>	<u>\$ 8.3</u>	

A. **State Operating Assistance** Background and Formula Information

Public Act 51 of 1951 restricts State Operating Assistance for urban public transit agencies, with a population greater than 100,000, to an amount up to 50% of their eligible operating expenses, as defined by the State of Michigan Department of Transportation. An eligible expense reimbursement formula is used to determine the amount of operating assistance urban transit agencies receive from the State. An adjusted amount of eligible expenses is multiplied by a percentage, as determined by the State each year, to determine the amount of the distribution to transit agencies. The State aggregates the eligible operating expenses of the DDOT and the Suburban Mobility Authority for Regional Transportation (SMART) to determine the State Operating Assistance payments for both entities. According to the formula, the DDOT receives 65% and the SMART receives 35% of the distribution amount from the State.

Budget Comparisons

The 2001-2002 Mayor's Proposed Budget includes an estimate of \$61.9 million for State Operating Assistance, a \$3.2 million increase from the previous budget. The increase in State Operating Assistance in the 2001-2002 budget is primarily due to the City's projection of increased eligible operating expenses for the DDOT and the SMART in 2001-2002, as compared to the estimate in the 2000-2001 budget.

City and State Comparisons

The City's budgeted amount for State Operating Assistance exceeds the State's estimate of the amount it will distribute to the DDOT for Operating Assistance. The State estimates the DDOT will receive \$52.4 million, however, the budget includes \$61.9 million projected revenues for State Operating Assistance. The 2001-2002 budgeted amount for State Operating Assistance exceeds the State's estimate by \$9.5 million. The difference between the City and State is primarily due to a higher amount of total eligible expenses figured in the City's computation. The estimate for State Operating

Assistance in the City's budget is based upon \$81,558,600 eligible operating expenses for the SMART, while the State's estimate is based upon \$63,750,766 eligible expenses for the SMART, resulting in a \$17,807,834 difference. In addition, the City used 40% in its calculation of State Operating Assistance, whereas the State used 37%.

Current Year Budget Estimate

The 2000-2001 Budget for State Operating Assistance is \$58.7 million. However, the State estimates it will pay the DDOT \$53.9 million. Therefore, the DDOT may experience a \$4.8 million shortfall in State Operating Assistance for fiscal year 2000-2001. In the event of a shortfall, the DDOT would either reduce operating expenses, or receive an increase in the General Fund Contribution, or a combination thereof.

B. General Fund Contribution - DDOT

The budgeted General Fund Contribution to the DDOT is \$73.4 million for 2001-2002. The General Fund Contribution to the DDOT represents a \$4.9 million (7.2%) increase from the previous year's budgeted amount.

C. General Fund Contribution - DTC

The budgeted General Fund Contribution to the Detroit Transportation Corporation (DTC) is \$11.4 million for 2001-2002. The General Fund Contribution to the DTC represents a \$0.7 million (6.6%) increase from the previous year's budgeted amount. The increase in the General Contribution to the DTC primarily relates to planned refurbishing of People Mover vehicles.

Net Operating Losses

The pattern of the DDOT net operating losses is well documented, as are the public policy reasons underlying continued subsidies to transit operations. The following schedule details the DDOT net operating losses over recent years. The data for this schedule was obtained from the City's Comprehensive Annual Financial Report (CAFR) for fiscal years ended June 30, 1998 and 1999; and a draft copy of the CAFR for the year ended June 30, 2000; Budget Department data for fiscal year ended June 30, 2001; and the Mayor's Proposed Budget for 2001-2002.

<u>Period</u>	<u>In Thousands</u>		
	<u>Operating Revenue (A)</u>	<u>Operating Expense (B)</u>	<u>Net Operating (Loss)</u>
Per the CAFR Statement of Operations for DOT:			
1997-1998	\$ 31,507	\$ 153,643	\$ (122,136)
1998-1999	\$ 31,359	\$ 160,550	\$ (129,191)
1999-2000 (Draft)	\$ 29,011	\$ 168,648	\$ (139,637)
Per Budget:			
2000-2001	\$ 27,525	\$ 162,006	\$ (134,481)
Per Mayor's Proposed Budget:			
2001-2002	\$ 27,825	\$ 169,633	\$ (141,808)

(A) Operating revenue consists primarily of farebox revenue.

(B) Budgeted operating expenses do not include the General Fund Contribution for operation of the People Mover in pass-through funds (via DDOT) in 2000-2001 and 2001-2002.

Based on our analysis, the amount included in the 2001-2002 Mayor's Proposed Budget for State Operating Assistance is optimistic, and if it does not materialize, could result in an increased General Fund Contribution to the DDOT.

DETROIT TRANSPORTATION CORPORATION
(PEOPLE MOVER)

The 2001-2002 Mayor's Proposed Budget includes an \$11.374 million subsidy for the Detroit Transportation Corporation (People Mover). The subsidy will pass through the City's Department of Transportation to the Detroit Transportation Corporation. The amount of the subsidy is based upon the difference between estimated expenses of \$12.978 million and estimated revenues of \$1.604 million for the operation of the People Mover.

The Detroit Transportation Corporation summary budget for the 2001-2002 fiscal year is compared to the 2000-2001 summary budget in the following schedule. The Detroit Transportation Corporation budget is not included in the City's budget.

	<u>In Thousands</u>		
	<u>2001-2002</u>	<u>2000-2001</u>	Increase (Decrease)
Expenses:			
Staff Expenses	\$ 5,841	\$ 5,541	\$ 300
Materials and Services	5,086	4,461	625
Facility Maintenance and Contract Services	1,401	1,395	6
Maintenance and Servicing of Equipment	<u>650</u>	<u>757</u>	<u>(107)</u>
Total Operating Expenses	<u>\$ 12.978</u>	<u>\$ 12.154</u>	<u>\$ 824</u>
Revenues:			
Faregate Collections, Pass and Token Sales	\$ 615	\$ 840	\$ (225)
Other Revenue	230	200	30
Expected FTA Grant	<u>759</u>	<u>440</u>	<u>319</u>
Total Revenue	\$ 1,604	\$ 1,480	\$ 124
Excess of Expenses Over Revenue	<u>\$ 11,374</u>	<u>\$ 10,674</u>	<u>\$ 700</u>
City Of Detroit Subsidy	<u>\$ 11,374</u>	<u>\$ 10,674</u>	<u>\$ 700</u>

The \$11.374 million subsidy in the 2001-2002 Mayor's Proposed Budget comprises 88% of the funding necessary to operate the People Mover. The subsidy represents a \$0.7 million increase, or 6.6% increase, over the subsidy in the 2000-2001 budget. Current service hours and the current fifty-cent (\$0.50) fare are expected to remain unchanged in the 2001-2002 fiscal year.

The projected \$225,000 decrease in faregate collections is due to the partial shut-down when General Motors closes the RenCen People Mover station for renovations to the building and adjacent structures.